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SIPDIS

STATE FOR WHA/BSC AND EB/TPP/MTA/IPC
STATE PASS TO USTR FOR SCRININ and BPECK
STATE PASS TO USPTO/OLIA
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/DDEVITO/DANDERSON/EOL SON
NSC FOR KIM BREIER
USDOC PASS TO NIST/SCARPENTER
PANAMA FOR DCM

SENSITIVE

E.O. 12958: N/A

TAGS: [EINV](#) [ETRD](#) [KIPR](#) [EAGR](#) [ENRG](#) [SCUL](#) [SOCI](#) [PREL](#) [PGOV](#) [PINR](#) [BR](#)
SUBJECT: AMBASSADOR VISIT TO RIO GRANDE DO SUL

[11](#). (U) Summary: Ambassador, accompanied by officers from Consulate General Sao Paulo, visited Porto Alegre, capital of Brazil's southernmost state of Rio Grande do Sul, May 1-[13](#). During the visit, Ambassador met with the governor and the mayor; toured the modern General Motors and Dell Computers factories; met with the local American Chamber of Commerce and the state industrial association; gave an interview to the largest local media group; gave a speech on labor issues at the Liberty Forum; met the leadership of the Pontifical Catholic University and toured their impressive technological center, where companies like Microsoft, Dell, and Hewlett Packard have operations; visited the Binational Cultural Center and the U.S. Consular Agent; and, toured several of the city's museums and the harbor. The trip offered a wonderful opportunity to highlight the very substantial engagement in so many areas between the U.S. and Rio Grande do Sul. End Summary.

Rio Grande do Sul: Land of the Gauchos

[12](#). (U) Rio Grande do Sul is Brazil's dynamic southernmost state, with a population of 10.4 million and an area of 281,000 square kilometers. The "guachos," as the state's residents call themselves, are largely of German and Italian descent and have among the highest per capita GDP (USD 4,046 in 2003) and literacy rates in the country. The state's diversified economy, with a 2003 GDP of USD 42.5 billion, is Brazil's fourth largest. The state produces 13.4 percent of national agriculture, especially rice (48 percent), tobacco (48 percent), grapes (54 percent), and wheat (30 percent). It is also the third largest soybean producing state, and the fifth largest in number of cattle. The industrial sector (second in the country in 2003) produces everything from shoes to electrical equipment, vehicles, agricultural machinery, petrochemicals, and computers.

[13](#). (U) A number of U.S. companies operate in Rio Grande do Sul, including General Motors, Dell Computers, International Engines (exporting to South Africa), John Deere, and Massey Ferguson (tractors). Rio Grande do Sul ranked second in exports (USD 8 billion, 11 percent of national exports in 2003), with 23.5 percent going to the U.S., 10 percent to neighboring Argentina, seven percent to China, and three percent each to the U.K, Germany, and Chile. Main exports are shoes, computers, tobacco, machinery, meat, and soybeans.

[14](#). (SBU) Politically, the gauchos have a voice in the Lula Administration, with four cabinet ministers hailing from the state, though the gaucho PT has tended to be more leftist and less influential within the Administration than President Lula's more moderate PT faction (Articulacao).

General Motors on a Roll

[15](#). (U) The first official stop on the visit was to the impressive General Motors (GM) plant in Gravatai, 32 kilometers outside Porto Alegre, part of an automotive assembly industrial park designed and built to produce GM's successful economy car, the Celta. 17 parts suppliers (some of them American) helped design the complex, share the joint expenses of operation, and operate their own factories. The USD 700 million investment (USD 350 million by GM, USD 200 million by the suppliers, and USD 150 million by the state government) began production in January 2000 and employs 3,500 workers (1,600 by GM, 1900 by the suppliers). The unionized workers have an average take home-pay of about USD 400 per month and receive subsidized meals, transportation, and medical service.

[16](#). (U) Production costs are kept down by using just-in-time

production techniques and limiting model options (only 120 build combinations, versus the typical plant's 5,000-7,000 combinations), allowing a retail price for the Celta of 21,000-25,000 reais (USD 8,400 to 10,000). In 2004, the plant produced 136,000 cars, with about ten percent of production exported to Argentina, Uruguay, Paraguay, and Central America. GM executives said the company will invest USD 240 million over the next two years to expand production to 250,000 cars a year and boost exports to 40 percent. The Celta will soon be offered in a flex-fuel mode (using either gasoline or ethanol). (Comment: A similar plant planned by Ford in the late 1990s was held up by the then-PT state governor, with the resultant loss of the plant and jobs to Bahia state. GM's other operations in Brazil are reportedly doing less well, with talk of possible future layoffs at other plants. End Comment).

Dell Computer's Gray Future

17. (SBU) While Rio Grande do Sul's economic outlook is mostly bright, a visit to Dell Computer's factory in Eldorado do Sul, just outside Porto Alegre, provided a cautionary tale of how investment can be hurt by lack of government action against illegality. The rented facility, which opened in November 1999 and was a USD two million investment, produces about 400,000 personal computers (PCs, retailing in Brazil for USD 500-600), servers, laptops, projectors, and peripherals a year. It is Dell's only manufacturing facility in Latin America. About 62 percent of production is for the Brazilian market, with the rest exported to the rest of Latin America. The plant directly employs 700 workers, with an additional 600 employed as service contractors (including a call service center in Portuguese).

18. (SBU) Although Dell worldwide is doing quite well, Dell executives lamented the poor outlook for the company in Brazil, noting that a planned move to an expanded permanent facility had been scrapped. The culprit is the expanding "gray market," or the assembly of computers using smuggled parts upon which no duties have been paid. There are about ten major "gray" dealers who illegally import parts, then have dozens of small shops assemble them for retail sale at about USD 350 each, thus undercutting Dell and other legal producers (like IBM and Hewlett Packard). In five years, the percentage of the gray market for PCs in Brazil has skyrocketed from about 50 percent to 75 percent today, (Mexico, in contrast, is about 50 percent). As a result, despite an overall steady growth in the demand for PCs and other products, the legal companies are left to fight over a shrinking market share of mainly corporate customers (only ten percent of Dell's PCs are sold to individuals who are willing to pay more for better service). Dell executives said they are pushing a law that would require GOB agencies to purchase PCs only from companies that could prove all parts were purchased legitimately, emphasizing in their lobbying how much tax revenue is being lost by allowing the sale of gray products.

FIERGS - Bullish Outlook

19. (U) Ambassador met with incoming Industrial Federation of the State of Rio Grande do Sul (FIERGS) President Paulo Tigre and its board of directors, and toured their impressive facility, which includes a large auditorium and exposition center. Created in 1937, FIERGS has 34,000 member companies in 111 industry sectors that collectively employ 580,000 workers. Rio Grande do Sul is usually the second largest exporter of all Brazilian states (after Sao Paulo), though due to a recent drought it is currently third after Minas Gerais. FIERGS leadership expressed full support for the Free Trade Area of the Americas (FTAA) process, noting their state sends significant exports to the U.S. and commenting, "the future is FTAA, not Mercosul."

A Young and Growing Amcham

110. (U) Ambassador enjoyed a wide-ranging exchange of views on economic and political issues with leadership of the American Chamber of Commerce branch office in Porto Alegre at a breakfast hosted by President Carlos Biedermann (Price Waterhouse). The Amcham chapter in Porto Alegre, affiliated with the Sao Paulo Amcham, was founded in 1998 and has 600 members. They believe Rio Grande do Sul is the state with the second largest number of American companies, after Sao Paulo.

RBS Media Group

111. (U) Ambassador had an off-the-record lunch with the editorial board of RBS Media Group, Latin America's largest regional communications group, operating in the states of

Rio Grande do Sul and Santa Catarina. RBS, which has 900 reporters, owns newspaper "Zero Hora" (circulation 205,000) and five other newspapers, 18 television stations affiliated with TV Globo (and two independent stations), Gaucha Sat Network of 120 radio stations in ten states (and 25 independent radio stations), and internet portal, and many supporting enterprises. Ambassador subsequently granted on-the-record interviews for "Zero Hora" and the radio network. Pedro Parente, who was Chief of Staff (cabinet rank) for former President Fernando Henrique Cardoso (PSDB), is Executive Vice President of RBS. (Note: We have traditionally had excellent access and relations with the group. End Note).

¶12. (SBU) During the general conversation, Chairman of the Board Jayme Sirotsky, who is a former President of the World Association of Newspapers, recounted how he and other international members went to see Venezuela's President Chavez to register their concern about recent governmental restrictions on freedom of the press in Venezuela. Although Chavez agreed to see them, he was quite rude and basically threw the visiting delegation out. His appreciation of Chavez after meeting him up close: "He's crazy." The executives revealed that one of their recent radio polls found their listeners in the state about evenly split in their feelings toward the Venezuelan president (who was in Porto Alegre earlier in the year for the World Social Forum).

The American Presence: Binational Center, Consular Agency

¶13. (U) Ambassador toured the Brazilian-American Cultural Center, founded in 1938, which teaches English and other courses to 8,000 students a year and provides library and other services to the community. He also visited the co-located Consular Agency, headed by American Citizen Debra Godoy. (Comment: With the closure of the U.S. Consulate in 1997, still a sore point with state residents and officials, our Consular Agent and Foreign Commercial Service FSN Roberto Muhlbach (located in a separate office) provide the only official USG presence in Porto Alegre; the Binational Center, though no longer officially linked to the USG, is a highly visible presence that has been the focal point of anti-American demonstrations in the past. End Comment).

Liberty Forum and PUCRS University

¶14. (U) Ambassador gave a well-received speech on the future of labor at the XVIII Liberty Forum, an international conference sponsored by a Brazilian organization that looks broadly at national problems. Ambassador subsequently met with Rector Joaquim Clotet and a number of senior faculty and administrators (many U.S.-educated) of the Catholic Pontifical University of Rio Grande do Sul (PUCRS). Founded in 1931, PUCRS has six campuses or centers throughout the state with 33,000 students in 26 schools, 24 masters programs, and 16 doctoral programs. Clotet emphasized the close relationship PUCRS has with a number of U.S. universities in many fields.

TECNOPUC's High Tech Success

¶15. (U) A visit to the PUCRS Technological Park (TECNOPUC) showcased the wonderful potential of bringing business and higher learning together. Opened in 2001 on land and buildings acquired from the Brazilian Army, TECNOPUC is Brazil's biggest and most advanced technological research park (beating out parks in Sao Paulo, Rio de Janeiro, and Recife), according to officials. It has 1,800 employees, and companies provide scholarships and projects for students, many of whom are hired full-time after graduation. The park has had greatest success in information technology, with companies like Dell Computers, Hewlett Packard, Microsoft and a number of Brazilian and European counterparts working on international projects at the direction of their headquarters (like developing software and testing equipment), as well as doing work for Brazilian clients. TECNOPUC will build a new 15-story building to house new tenants (Motorola will begin operations soon).

¶16. (SBU) The park is also trying, so far less successfully, to attract companies in two other areas: clean energy and health sciences. Officials admitted that Brazil's chaotic electrical energy regime inhibits research in energy, while the inability to get effective patent protection has driven off interested parties in health science (Merck and SBKline were two pharmaceutical giants who recently abandoned preliminary plans to set up shop at TECNOPUC). The only health research being conducted is for a tuberculosis drug paid for by the GOB.

Meetings with Governor and Mayor

17. (U) Capping off a highly productive visit, Ambassador met with the region's political authorities. After a formal reception, with national anthems and a military police honor guard and band, Ambassador met with Rio Grande do Sul Governor Germano Rigotto (PMDB) and his senior advisors. During the animated, wide-ranging discussion, the Governor explained his plans to bring shipbuilders and orange juice exporters to his state and discussed biodiesel and trade missions. Ambassador separately paid a courtesy call on Porto Alegre Mayor Jose Alberto Fogaca (PPS), who surprisingly forged a coalition to end 16 years of Workers Party (PT) municipal rule in last October's local elections.

Duddy